

# State of South Carolina



## Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

June 29, 2001

Mr. Richard C. Cooke  
Cooke Management Company, Inc.  
Post Office Box 808  
Lake View, South Carolina 29563-0808

Re: AC# 3-MCY-J8 – McCoy Memorial Nursing Center

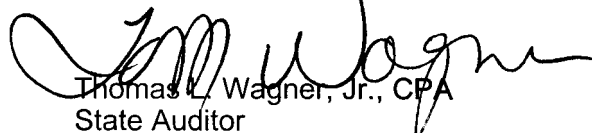
Dear Mr. Cooke:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate changes shown on Exhibit A. You will be notified of repayment terms by that agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

**MCCOY MEMORIAL NURSING CENTER  
BISHOPVILLE, SOUTH CAROLINA**

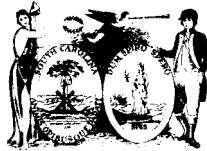
**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 1999  
AC# 3-MCY-J8**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 27, 2001

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with McCoy Memorial Nursing Center, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

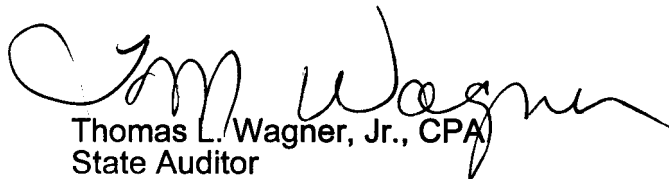
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by McCoy Memorial Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and McCoy Memorial Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
February 27, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA  
State Auditor

**MCCOY MEMORIAL NURSING CENTER**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 1999  
AC# 3-MCY-J8

Interim Reimbursement Rate (1)	\$90.63
Adjusted Reimbursement Rate	<u>84.08</u>
Decrease in Reimbursement Rate	\$ <u>6.55</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000.

**MCCOY MEMORIAL NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period Beginning October 1, 1999  
AC# 3-MCY-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.57	\$47.33	
Dietary		8.55	9.69	
Laundry/Housekeeping/Maintenance		<u>6.83</u>	<u>8.24</u>	
Subtotal	<u>\$4.57</u>	53.95	65.26	\$53.95
Administration & Med. Records	<u>\$5.26</u>	<u>6.30</u>	<u>11.56</u>	<u>6.30</u>
Subtotal		60.25	<u>\$76.82</u>	60.25
<u>Costs Not Subject to Standards:</u>				
Utilities		1.58		1.58
Special Services		1.51		1.51
Medical Supplies & Oxygen		6.43		6.43
Taxes and Insurance		.63		.63
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$70.40</u>		70.40
Inflation Factor (3.00%)				2.11
Cost of Capital				8.10
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.46
Cost Incentive				4.57
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.28)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.97</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$84.08</u>

**MCCOY MEMORIAL NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MCY-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,812,364	\$ 1,374 (10)	\$ 1,944 (6) 7 (6) 10,452 (7) 1,174 (7) 99,414 (8) 57,163 (9) 2,756 (9) 2,325 (11)	\$1,638,503
Dietary	384,765	507 (12)	11,230 (6) 1,567 (7) 4,478 (9) 4,944 (11)	363,053
Laundry	46,444	-	457 (6) 473 (7) 780 (9)	44,734
Housekeeping	159,807	-	1,075 (6) 920 (7) 3,635 (9)	154,177
Maintenance	94,782	-	2,711 (6) 8 (7) 846 (9) 11 (10)	91,206
Administration & Medical Records	304,445	-	6,436 (4) 1,927 (6) 4,500 (6) 943 (7) 578 (7) 17,939 (9) 431 (9) 4,203 (10)	267,488
Utilities	80,697	-	10,488 (5) 2 (10) 3,136 (11)	67,071



**MCCOY MEMORIAL NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MCY-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Special Services	67,001	15,659 (12)	18,457 (6)	64,203
Medical Supplies & Oxygen	280,583	6,501 (12)	14,037 (6)	273,047
Taxes & Insurance	30,020	-	3,119 (10)	26,901
Legal Fees	-	-	-	-
Cost of Capital	343,712	586 (2) 3,332 (13)	1,128 (1) 1,130 (3) <u>1,158 (10)</u>	344,214
Subtotal	3,604,620	27,959	297,982	3,334,597
Ancillary	87,581	-	-	87,581
Non-Allowable	710,936	1,128 (1) 1,130 (3) 6,436 (4) 5,126 (5) 16,115 (7) 99,414 (8) 88,028 (9) 7,119 (10) <u>3,136 (11)</u>	586 (2) 22,667 (12) 3,332 (13)	911,983
Total Operating Expenses	<u>\$4,403,137</u>	<u>\$255,591</u>	<u>\$324,567</u>	<u>\$4,334,161</u>
Total Patient Days	<u>42,486</u>	<u>-</u>	<u>-</u>	<u>42,486</u>
Total Beds	<u>120</u>			

**MCCOY MEMORIAL NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MCY-J8

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
1	Fixed Assets	\$ 4,313	
	Other Equity	96,116	
	Nonallowable	1,128	
	Accumulated Depreciation		\$100,429
	Cost of Capital		1,128
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	586	
	Nonallowable		586
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	1,130	
	Cost of Capital		1,130
	To adjust amortization expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable	6,436	
	Administration		6,436
	To remove cost not related to patient care and disallow expense due to lack of documentation HIM-15-1, Sections 2102.3 and 2304		
5	Retained Earnings	5,362	
	Nonallowable	5,126	
	Utilities		10,488
	To properly charge expense applicable to the prior period and disallow penalties and cable TV expense HIM-15-1, Sections 2103, 2106, 2302.1 and 2304		

**MCCOY MEMORIAL NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MCY-J8

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Retained Earnings	56,345	
	Nursing		1,944
	Restorative		7
	Dietary		11,230
	Laundry		457
	Housekeeping		1,075
	Maintenance		2,711
	Administration		1,927
	Medical Records		4,500
	Medical Supplies		14,037
	Special Services		18,457
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
7	Nonallowable	16,115	
	Nursing		10,452
	Restorative		1,174
	Dietary		1,567
	Laundry		473
	Housekeeping		920
	Maintenance		8
	Administration		943
	Medical Records		578
	To remove expense applicable to the duplicate posting of payroll HIM-15-1, Section 2304		
8	Nonallowable	99,414	
	Nursing		99,414
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		

**MCCOY MEMORIAL NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MCY-J8

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
9	Nonallowable	88,028	
	Nursing		57,163
	Restorative		2,756
	Dietary		4,478
	Laundry		780
	Housekeeping		3,635
	Maintenance		846
	Administration		17,939
	Medical Records		431
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
10	Nonallowable	7,119	
	Nursing	1,374	
	Maintenance		11
	Administration		4,203
	Utilities		2
	Taxes and Insurance		3,119
	Cost of Capital		1,158
	To adjust home office allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
11	Other Income	7,269	
	Nonallowable	3,136	
	Nursing		2,325
	Dietary		4,944
	Utilities		3,136
	To properly offset income against related expense and disallow expense related to vending HIM-15-1, Sections 2102.3, 2304 and 2328 State Plan, Attachment 4.19D		
12	Dietary	507	
	Special Services	15,659	
	Medical Supplies	6,501	
	Nonallowable		22,667
	To remove special (ancillary) services reimbursed by Medicare and adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		

**MCCOY MEMORIAL NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MCY-J8

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	Cost of Capital Nonallowable	3,332	3,332
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>424,996</u>	\$ <u>424,996</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MCCOY MEMORIAL NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MCY-J8

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>88</u>	<u>32</u>	
Deemed Asset Value	3,091,440	1,124,160	
Improvements Since 1981	6,203	-	
Accumulated Depreciation at 9/30/98	<u>(775,767)</u>	<u>(42,760)</u>	
Deemed Depreciated Value	2,321,876	1,081,400	
Market Rate of Return	<u>.063</u>	<u>.063</u>	
Total Annual Return	146,278	68,128	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	146,278	68,128	
Depreciation Expense	84,102	44,263	
Amortization Expense	-	1,443	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	230,380	113,834	\$344,214
Total Patient Days (Minimum 97% Occupancy)	<u>31,156</u>	<u>11,330</u>	<u>42,486</u>
Cost of Capital Per Diem	\$ <u><u>7.39</u></u>	\$ <u><u>10.05</u></u>	\$ <u><u>8.10</u></u>

## **COMMENTS AND RECOMMENDATIONS**

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

### **TRANSACTION CLASSIFICATION**

The provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

### **VENDING MACHINE AND MEAL SALES**

Income received from vending machines and meal sales were not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document the income derived from vending machine and meal sales, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received be deposited timely and intact.



2 copies of this document were published at an estimated printing cost of \$1.47 each, and a total printing cost of \$2.94. The FY 2000-01 Appropriation Act requires that this information on printing costs be added to the document.